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Cooper treads into East: Venture in China advances strategy

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FINDLAY - With one \$70 million acquisition, Cooper Tire & Rubber Co. is reaching nearly half its goal of \$1 billion in sales in China by decade's end.

And buying that majority stake in the third-largest Chinese-owned tire maker this year is just the latest in the Findlay company's strategy to boost sales by turning to Asia, both to import low-end tires and to build various products primarily for China, as competitors do.

By the time the local firm and a joint-venture partner open a \$200 million tire plant near Shanghai, the Findlay company will have spent \$270 million on ventures in Asia, said Chief Executive Thomas Dattilo.

The plant, to start production this summer, eventually will make up to 12 million tires a year for North America and Europe.

Although the goal remains \$1 billion in Chinese sales by decade's end, additional foreign opportunities are likely to have to wait, Mr. Dattilo said.

"We're always, always, always looking," he said. "For right now, we want to manage the things that we have."

Cooper Tire, which also has a tire factory in England, sold its auto parts operations for nearly \$1.2 billion in late 2004 so it could focus on tires. Last year, without revenues from auto parts made in Bowling Green and elsewhere, the Hancock County company had \$2.2 billion in sales and was dropped from the Fortune 500 list.

Still, given all the bankruptcies and other turmoil in the auto industry, getting out of making parts was a good move, said Mr. Dattilo, who is also the firm's chairman. "I think it was the right decision for our company."

One expert on doing business in China has two words of advice for the Findlay business: "Tread carefully."

Most companies operating in China haven't made a profit despite robust sales. Doing business in that business carries many hidden costs, the Chinese auto market is extremely volatile and price-sensitive, and it's wise for firms to start small and be flexible, said Usha Haley, director of the Global Business Center at the University of New Haven.

"The China market is opaque," added the author of *The Chinese Tao of Business*. "It's difficult to penetrate."

Focus on China

Most of Cooper Tire's Asian efforts are focused on China, from which it will import about 2 million tires this year that typically retail for \$40 to \$60 each, including installation.

At the same time, Cooper Tire has beefed up its U.S. tire factories - including the addition of more than 140 jobs in Findlay - so they can focus more on higher-priced performance and light truck tires.

For the past few years, the manufacturer has imported tires from Kenda Rubber Industrial Co. of Taiwan and Hangzhou Zhongce Rubber Co. of Hangzhou. Kenda also is Cooper Tire's partner for the factory near Shanghai, the start of which was delayed several months by governmental red tape.

Yet its 51 percent stakes in Cooper Chengshan (Shandong) Passenger Tire Ltd. and Cooper Chengshan (Shandong) Tire Co. Ltd., which makes commercial truck tires, are the Findlay firm's first foray into selling in China.

The Chinese tire manufacturer had \$450 million in sales last year, and Cooper Tire also purchased a 25 percent stake in an adjacent steel cord factory.

'Gives us that foothold'

"It really gives us that foothold to take advantage of the emerging market in China itself," Mr. Dattilo said.

The northwest Ohio firm is designing a complete line of Cooper brand tires especially for the Chinese market, tires that will be tested in a few small areas this year, with a full launch planned for early next year, the company said.

Other tire makers have long had similar export and sales strategies in China to take advantage of lower labor and other costs, and Cooper Tire may be able to attain its \$1 billion sales goal, said James Barnett, dean of the University of Akron's College of Business Administration.

"It's kind of a consensus that you're going to be in China," said the former Goodyear Tire & Rubber Co. executive. "Not just the tire industry, but all industries."

Companies are moving away from joint ventures in China because of concerns including fear that intellectual property will be stolen, said Ms. Haley of New Haven.

Not all of Cooper Tire's Asian efforts are in China, though. Soon after selling its auto parts business, it spent \$108 million on an 11 percent stake in Korea's

Kumho Tire Co.

Advances into Asia have not gone unnoticed by factory workers in Findlay. The local factory, which now has about 980 hourly workers, recently switched to a 12-hour continuous operation, where employees work two days, are off two days, and then work three days before repeating the schedule.

Keeping the plant's equipment operating around the clock without weekend overtime is expected to keep the operation viable in the face of foreign competition, said Frank Cline, president of United Steelworkers Local 207.

"Hopefully, this move is going to secure our future here at the plant," he said. "We just can't compete with cheap tires."

Decline in U.S. output

In the last half-dozen years, the number of passenger tires made in the United States has declined from 223 million to 176 million, and imports mostly have been on the rise.

Nearly 102 million passenger tires were imported into the United States last year, estimates the Rubber Manufacturers Association.

And although \$7.7 billion worth of rubber tires and tubes were imported into the United States last year, only \$2.8 billion worth were exported, according to the U.S. Census Bureau.

To Cooper Tire's credit, said Local 207's Mr. Cline, the Findlay company has invested in its U.S. tire plants, increased employment, and vowed to continue domestic production even as it has expanded in Asia. Other tire makers are closing or selling U.S. plants, he noted.

"I'm not saying that I'm praising them, because I don't have the insight to know what their plans are," Mr. Cline added.

Despite increasing imports from China, Cooper Tire will continue to make so-called broadline or mainstream tires, which are used on cars such as the Toyota Camry, in the United States, said Mr. Dattilo, the executive.

"I don't foresee for many, many years getting to the point of not making broadline tires here," he said.

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